HOUSING MARKET OUTLOOK

Trois-Rivieres CMA

Canada Mortgage and Housing Corporation

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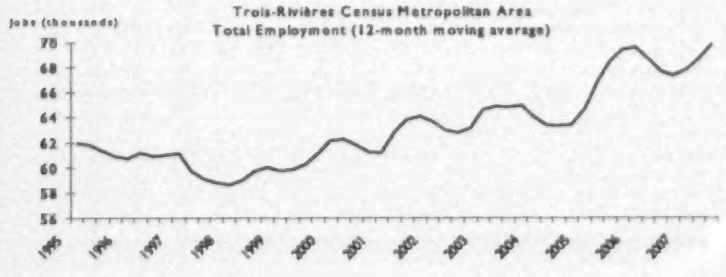
Modest job creation to come in the area

In the Trois-Rivières census metropolitan area (CMA), 2007 will end with a modest gain in the number of new jobs. Certainly, this will contrast with the situation observed in 2006, when the area had lost close to 2,000 jobs, but we will still be far from the dynamic conditions prevailing on the market in 2005, when nearly 6,000 jobs had been created. With the strong and rapid rise in the value of the Canadian dollar relative to the U.S. dollar in recent quarters, manufacturing companies have had little time to adjust and are struggling to maintain their profitability. In addition to the difficulties that they are experiencing in keeping their market share in the United States, these companies must contend with increased competition from emerging countries, particularly China. The negative impact of the strong loonie on the manufacturing sector will continue to be felt over the next two years.

It is expected that 2,000 new jobs will be created in 2007, for a gain of 3.0 per cent. In 2008, the job market will remain sluggish in the Trois-Rivières area, and growth should slow down slightly, to 1.5 per cent.

Figure 1

Job Market Shows Ups and Downs



Source: Statistics Canada

In this Issue

1 Modest job creation to come in the area

2 Resale market easing but still active

2 Price increases still above inflation

3 Residential construction to decline very slightly in 2007 before slowing down more significantly in 2008

3 Rental market still tight, despite some easing

4 Forecast Summary

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Given that fluctuations on the job market affect the real estate market a few quarters later, it can be anticipated that the strong activity registered throughout 2005 will have a positive impact and stimulate the real estate market during the first half of 2007. In the second half of the year, however, and until the end of 2008, the slowdown on the job market that has been noted in the CMA since the beginning of 2006 will have negative effects on the real estate market.

Migration to slow down slightly

Migration has been very strong in recent years in the Trois-Rivières CMA, especially since 2004, and net levels have been high (more than 500 people annually). This situation—quite different from the conditions observed in the late 1990s when net migration levels were systematically negative—significantly helped support the real estate market by putting upward pressure on housing demand. In 2007 and 2008, net migration levels in the area will remain relatively high, but slightly less so than in past years. The job market, which has been sluggish in the area for the past few quarters, will make the Trois-Rivières CMA less appealing to newcomers, who may prefer to settle in another area where job prospects are brighter. While there should be fewer newcomers to the area in 2007 and 2008, their numbers will still be high compared to the levels recorded over the last 15 years, and this will continue to stimulate the real estate market in 2007 and 2008.

Resale market easing but still active

In the Trois-Rivières CMA, the resale market will remain very active in 2007. In fact, this market will continue to benefit from the positive spin-offs of the vibrant job market observed in the area in 2005 and from a certain growth—albeit steady for the last few years—in the first-time home buyer group, that is, in the number of households aged from 25 to 34 years. On the other hand, the recent rise in mortgage rates, which still remain relatively low, could curb the enthusiasm of some buyers. The year 2007 should therefore end with transactions down slightly (-4 per cent) in comparison with 2006, as 840 single-family homes[1] should be sold, which is still above the annual average for the last 10 years (780 sales).

However, sales should begin to ease off during the course of 2008. The slowdown on the job market that occurred in the area in 2006 will start to be felt on the resale market, as will the rise in mortgage rates, which should continue in 2008. A total of 775 properties should change hands, for a decrease of 8 per cent from 2007.

Price increases still above inflation

For the last five years, the resale market has been relatively tight in the Trois-Rivières CMA. A limited supply of properties for sale combined with a strong demand, which resulted in a large number of transactions, created an environment where sellers had the upper hand. Given the forces at play, significant price hikes were registered. In fact, between the second quarter of 2002 and the second quarter of 2007, the average price of single-family homes jumped up by 56 per cent. While still remaining favourable to sellers in 2007 and 2008, the market should come out of the overheated range, which is characterized by a seller-to-buyer ratio of less than 5 to 1. Listings will rise marginally, while sales will fall slightly, which will somewhat ease the upward pressure on prices. That being said, the market will still remain below the balanced range[2], which will justify price hikes above inflation. In 2007, the average price will therefore rise by 8.7 per cent to $126,000. The increase will be slightly smaller in 2008 (+4 per cent), when homes should be selling for an average of $131,000.

Figure 2

[1] Single-family homes include single-detached, semi-detached and row homes.

[2] The balanced range for the seller-to-buyer ratio is between 8 and 10 to 1, indicating a market where neither buyers nor sellers are favoured.

Residential construction to decline very slightly in 2007 before slowing down more significantly in 2008

It is expected that housing starts will fall very slightly in 2007. Still, the level of activity will remain high, and a significant number of dwellings will get under way this year. The steady activity observed in 2006 should therefore continue in 2007 across the CMA, as foundations should be laid for a total of 975 dwellings, compared to 1,017 one year earlier. The dynamic job market conditions that prevailed in 2005 will be one of the main engines of this growth, since their positive spin-offs will continue to stimulate residential construction. In addition, the resale market, which will remain tight and still offer a generally limited choice of properties for sale, will also favour the new home market.

As has been the case over the last four years in the Trois-Rivières area, the high volume of starts in 2007 will be very largely attributable to the vigorous rental housing activity. In fact, many dwellings of this type will be started, as there are few units for rent in the area. The strong migration in recent years has put upward pressure on rental housing demand and, as a result, the vacancy rate has remained low. In addition, the growth in the group aged 75 years or older has been relatively strong in recent years and will stay just as significant in 2007, which will stimulate the construction of retirement homes.

For 2008, a slowdown is anticipated, partly on account of the fact that the resale and rental markets will ease somewhat, giving buyers and renters

Figure 3

a slightly broader choice of properties for sale and dwellings for rent. In addition, the poor performance of the job market noted in 2006 will be felt on the new home market, as will the rise in mortgage rates. Rental housing starts will register a slightly greater decrease, and this market segment will be mainly responsible for the decline in starts expected in 2008. A total of 820 dwellings should be started in 2008, or 16 per cent fewer than in 2007.

Rental market still tight, despite some easing

The vacancy rate will go back up slightly in 2007 and 2008, but the rental market will remain relatively tight in the Trois-Rivières CMA, as has been the case in recent years. Slightly weaker migration and moderate household formation among people aged from 15 to 34 years—a group who is active on the rental market—will ease the pressure on rental housing demand. As well, the high volumes of starts of this type recorded in recent years will contribute to easing the market somewhat.

As well, 2007 will continue to benefit from the positive impact of the vigorous job market conditions that prevailed in the area in 2005, which will stimulate the rental market. Consequently, the vacancy rate will rise slightly in 2007, reaching 1.3 per cent, compared to 1.0 per cent in 2006. Conditions will ease somewhat more significantly in 2008, when the rental market will sustain the negative effects of the slowdown observed on the job market in 2006, allowing the vacancy rate to climb back up to 1.8 per cent.

Mortgage rates to edge up in 2008

Moderate inflation and a strong Canadian dollar vis-à-vis the U.S. dollar will help keep mortgage rates flat over the remainder of this year. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

Forecast Summary Trois-Rivières CMA Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	816	773	877	840	-4.2%	775	-7.7%
MLS® New Listings	279	313	324	375	15.7%	425	13.3%
MLS® Average Price ($)	102,000	112,250	115,900	126,000	8.7%	131,000	4.0%
New Home Market							
Starts:							
Single-Detached	384	367	372	325	-12.6%	320	-1.5%
Multiples	490	552	645	650	0.8%	500	-23.1%
Starts - Total	874	919	1,017	975	-4.1%	820	-15.9%
Average Price ($):							
Single-Detached	149,564	166,673	176,831	185,670	5.0%	193,100	4.0%
Median Price ($):							
Single-Detached	145,000	160,000	165,000	170,500	3.3%	174,800	2.5%
New Housing Price Index (% chg) (Que.)	6.3	4.9	4.4	n.d.	_	n.d.	_
Rental Market							
October Vacancy Rate (%)	1.2%	1.5%	1.0%	1.3%	_	1.8%	_
Two-bedroom Average Rent (October) ($)	457	474	488	500	2.5%	510	2.0%
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	_	7.19	_
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	_	7.41	_
Annual Employment Level	63,425	69,375	67,325	69,345	3.0%	70,385	1.5%
Employment Growth (%)	-2.3%	9.4%	-3.0%	3.0%	_	1.5%	_
Unemployment rate (%)	10.8%	9.2%	8.1%	8.5%	_	8.8%	_
Net Migration	757	590	854	450	-47.3%	400	-11.1%

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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